

SOLID WASTE
FINANCIAL RESERVE POLICY

County Sanitation District No. 2
of
Los Angeles County

Revisions for District No. 2 Consideration

September 8, 2021

TABLE OF CONTENTS

1.	Policy Statement	1
2.	Treasurer; Administration	1
3.	Types of Funds/Reserves	1
4.	Unrestricted Funds	2
5.	Designated Reserves	3
6.	Restricted Reserves	5
7.	Solid Waste Financial Reserve Policy Adoption.....	9

Solid Waste Financial Reserve Policy

1. Policy Statement

The Districts Solid Waste System provides essential public services and, to that end, has made an extensive investment in public infrastructure, operating facilities, and other related assets. Maintaining prudent financial reserves provides the resources to allow the continued delivery of reliable and high-quality service. Financial reserves provide significant benefits including:

- Improves liquidity so capital projects can be constructed in a timely fashion, despite fluctuations in cost from year to year;
- Allows the Solid Waste System to effectively respond to economic, environmental, and regulatory changes;
- Allows the Solid Waste System to meet long-term post-closure maintenance costs associated with solid waste landfills.

The Districts Solid Waste System is comprised of the facilities owned by the 15 Sanitation Districts signatory to the Sanitation Districts' Solid Waste System Agreement (System Agreement). County Sanitation District No. 2 of Los Angeles County ("District") acts as the administrative district for the Districts Solid Waste System, as described in the System Agreement. This Policy provides guidance for the management of the reserves for the Districts Solid Waste System. This Policy does not apply to contract landfills, and other contract facilities or funds (e.g., equipment pools, the Southeast Resource Recovery Facility, County Trust Fund, etc.). Unless otherwise noted, all reserves and funds described herein refer to Districts Solid Waste System reserves and funds, which are separate and distinct from those of the District.

2. Treasurer; Administration

- 2.1 The District, through its Investment Policy, has appointed the District's Chief Engineer and General Manager as the Treasurer of the District.
- 2.2 The Treasurer, or his or her designee, is hereby authorized to implement this Policy, and establish and maintain all financial reserves in accordance with this Policy and all provisions of law.
- 2.3 The Treasurer shall develop procedures to implement this Policy and shall report to the Board of Directors (Board) in accordance with the requirements of law and this Policy.

3. Types of Funds/Reserves

The District will maintain Solid Waste financial assets in various "Funds" as described in this Policy. To the extent possible, Fund balances will be maintained in amounts sufficient to meet appropriate

targeted goals, as established in this Policy in cash and/or cash equivalents, and permitted investments as prescribed in the District's Investment Policy. The Solid Waste Funds are categorized under this Policy as Unrestricted, Designated, or Restricted as follows:

3.1 Unrestricted

The Unrestricted Fund includes all monies collected or generated by or on behalf of the Districts Solid Waste System except those that have been deemed to be Designated or Restricted.

3.2 Designated

Designated Reserve Funds are the group of Reserve Funds for which the Board has imposed restrictions on the use of the monies in them for specific purposes such as capital facilities and land acquisition. These monies are not otherwise legally restricted and the Board has the discretion to re-designate the actual or intended usage of these monies.

3.3 Restricted

Restricted Reserve Funds are the group of Reserve Funds that have been established to comply with restrictions that have been imposed externally through law (federal, state, or local governments), administrative action (District adopted ordinances), or contractual arrangements (e.g., bond indentures). The monies in Restricted Reserve Funds can only be used for the purpose for which they were established or dedicated until the restrictions are removed by the party that imposed them or the contractual agreement that created them has expired.

4. Unrestricted Funds

4.1 District Joint Refuse System Operating Fund

4.1.1 Purpose

Monies in the Operating Fund may be used for any purpose consistent with the budget, other Board direction, legal requirements and this Policy. Operating Fund monies include all types of revenue unless otherwise designated or restricted. The Operating Fund must be sufficient to meet the cash flow needs of the District and to meet current and anticipated expenses in accordance with the long-term budgetary projections.

4.1.2 Targeted Goal

The targeted goal balance will be six months of projected operating expenses.

4.1.3 Review Timeline

The targeted goal shall be reviewed annually. At any time, if the operating fund balance is less than one and a half months of projected operating expenses, the Treasurer will notify the District's Board of Directors at the next regularly scheduled Board meeting and present a plan to resolve the issue.

4.1.4 Funding

All revenues other than those placed in Designated or Restricted Reserve Funds shall be placed in the Operating Fund.

4.2 Puente Hills Landfill and Spadra Landfill Operating Funds

4.2.1 Purpose

Each Facility's Operating Fund serves as the source of monies for landfill expenses. These funds are only spent on post-closure operations and maintenance of each respective landfill and, in general, come from restricted post-closure reserves. Monies in each respective Facility's Operating Fund may be used for any purpose consistent with the budget, other Board direction, legal requirements and this Policy. Operating Fund monies include all types of revenue unless otherwise designated or restricted.

4.2.2 Targeted Goal

The minimum targeted goal balance for the Operating Fund must be sufficient to meet the cash flow needs of the District and to meet current and anticipated expenses in accordance with budgetary projections for each landfill.

4.2.3 Review Timeline

The minimum targeted goal shall be reviewed annually.

4.2.4 Funding

The only significant sources of revenue are transfers of interest earnings from the Designated or Unrestricted Reserves of the Districts Joint Refuse System and from ~~respective Post-Closure Funds for each landfill~~ the Fee-in-Lieu Fund and Post Closure Contingency Fund.

5. Designated Reserves

5.1 Natural Disaster and Self-Insured Retention (SIR) Fund

5.1.1 Purpose:

The Natural Disaster and SIR Fund is designated to pay for: 1) short-term costs in the event of an earthquake or other natural disaster in order to continue District operations until state or federal relief funds are received; 2) costs related to a natural disaster that do not result in reimbursement; and 3) costs incurred due to an insurance claim that requires the use of the Districts' SIR amount. This can include funding immediate repairs to existing facilities and, if the Joint Administration Office becomes unusable, securing other office space. The Natural Disaster and SIR Fund will be pooled, shared proportionally among all of the Districts, not just those party to the Solid Waste Agreement, and the Districts Solid Waste System.

5.1.2 Targeted Goal:

The initial targeted goal balance for the pooled Natural Disaster and SIR Fund is \$17 million. The targeted goal and the appropriate share for each District and Solid Waste entity may be revised, as needed, to account for changes to risks, property values and SIR requirements.

5.1.3 Review Timeline:

The targeted goal balance will be reviewed and adjusted every five years with the first review to be completed by June 30, 2022.

5.1.4 Funding:

At the end of each five-year review period, the Treasurer will make a transfer from the Districts System Operating Funds to the Natural Disaster Fund, as necessary, for their share of any increase in the targeted goal.

5.2 Districts Joint Refuse System Capital Reserve Fund

5.2.1 Purpose:

The size and scope of capital projects (and the associated cost) varies from year to year. Additionally, many projects may occur over multiple years. This Fund will ensure that monies are available to meet capital expenses over the next two years.

5.2.2 Targeted Goal:

The targeted goal for this fund is equal to the next two year's planned, cash-funded capital expenses, not including the current fiscal year.

5.2.3 Review Timeline:

The targeted goal will be reviewed and adjusted annually in conjunction with the preparation of the final budget.

5.2.4 Funding:

Once the District Joint Refuse System Operating Fund meets its targeted goal, the Treasurer will annually transfer an amount necessary to reach the targeted goal from its Operating Fund to this Fund.

5.2.5 Additional Monies

The District may place additional monies into this Fund at any time so that the balance exceeds the targeted goal based upon long-term capital needs. Monies in excess of the targeted goal can be withdrawn at any time without prior Board authorization.

5.3 Other Reserve Funds

From time to time, the Board of Directors may deem it prudent to establish other designated reserve funds in order to further the mission of the Districts Solid Waste System. The Treasurer will create such Reserve Funds as directed and will establish appropriate targeted goals, review timelines, and funding mechanisms. This Policy will be amended to reflect the Board's direction with respect to any additional Designated Reserve Funds.

6. Restricted Reserves

6.1 Other Post-Employment Benefits (OPEB) Reserve Fund

6.1.1 Purpose:

The Sanitation Districts of Los Angeles County collectively provide health care and dental benefits for all retired employees and their dependents or survivors. The Districts have voluntarily elected to enter into a prefunding plan for their OPEB program. The OPEB funds must be held by a qualified third-party trustee.

6.1.2 Targeted Goal:

The yearly targeted goal will be to transfer to the OPEB Reserve Fund an amount equal to the Districts' annual required contribution (ARC) as determined by a qualified actuarial consultant.

6.1.3 Review Timeline:

The actuarial review is required at least biennially.

6.1.4 Funding:

Each year the Treasurer will collectively transfer the ARC to the third-party trustee in installments as required under the terms of the agreement with the trustee. Each transfer shall be apportioned among the Districts and Districts Solid Waste System Entities in proportion to the salaries incurred by the Wastewater District or Districts Solid Waste System since the previous transfer was made.

~~6.2 Puente Hills Landfill and Spadra Landfill Post Closure Maintenance Reserves~~

~~6.2.1 Purpose:~~

~~CalRecycle requires operators of solid waste disposal facilities to demonstrate adequate financial assurances for costs of post closure maintenance. In lieu of establishing a trust account, CalRecycle considers a pledge of revenue to be an acceptable form of demonstration.~~

~~6.2.2 Targeted Goal:~~

~~The targeted goal is to provide enough interest revenue to pay for post-closure maintenance activities at the Puente Hills and Spadra Landfills.~~

~~6.2.3 — Review Timeline:~~

~~The targeted goal shall be reviewed annually.~~

~~6.2.4 — Funding:~~

~~Any interest earned on these Reserves shall remain in the respective Fund until necessary for meeting post-closure expenses.~~

~~6.3 — Backup Post-Closure Reserve Fund (Formerly Cost Transition Fund)~~

~~6.3.1 — Purpose:~~

~~In anticipation of the closure of Puente Hills Landfill in 2013, the District developed a comprehensive plan of transitioning from local waste disposal to a remote disposal system in order to ensure sufficient capacity for waste disposal in Los Angeles County. Waste would be processed and sorted at local material recovery facilities (MRFs)/transfer stations and the residual waste would be loaded into containers and transported by truck or rail to remote landfills for disposal. Based on existing conditions, it is not anticipated that the remote disposal system will be necessary for a number of years.~~

~~While this fund may not be necessary to provide a cost transition to the Waste by Rail system for a number of years, the District has pledged interest from the Districts Joint Refuse System to meet CalRecycle requirements for closed landfills which is discussed further in Section 6.2. Based on the most recent projections, interest from this fund is necessary to meet CalRecycle requirements, and therefore the fund is restricted until interest from this fund is no longer necessary to meet CalRecycle requirements.~~

~~6.3.2 — Targeted Goal:~~

~~The long term targeted goal is to provide enough supplemental interest revenue to pay for post-closure maintenance activities at the Puente Hills and Spadra Landfills that cannot be covered by their respective post-closure reserve funds.~~

~~A review of this Fund will be completed annually to ensure sufficient funds exist to meet CalRecycle requirements.~~

~~6.3.3 — Funding:~~

~~After the initial deposit into this Fund, monies may be transferred from the Districts Joint Refuse Operating Fund if they are available and are needed to reach the targeted goal.~~

6.2 Fee-in-Lieu Fund

6.2.1 Purpose:

The Fee-in-Lieu Fund is used to fund Post Closure operations and maintenance expenses at the Puente Hills Landfill and Spadra Landfill pursuant to the Joint Agreement for the

Payment of the County Sanitation Districts of Los Angeles County Unfunded Accrued Liability for the California Public Employees' Retirement System (UAL Agreement).

6.2.2 Targeted Goal:

The targeted goal balance on June 30 of each fiscal year is the projected post closure operations and maintenance costs for the Puente Hills Landfill and Spadra Landfill for the following fiscal year plus any additional amounts necessary to replenish the Post Closure Contingency Fund, described below.

6.2.3 Review Timeline:

The targeted goal will be reviewed and adjusted annually in conjunction with the preparation of the final budget.

6.2.4 Funding:

Funding for the Fee-in-Lieu Fund will be provided by the Sanitation Districts that are party to the (UAL agreement). Additionally, net revenues from the District Joint Refuse Operating Fund may be transferred to this fund.

6.3 Post Closure Contingency Fund

6.3.1 Purpose:

The purpose of the Post Closure Contingency Fund is to provide funds for unforeseen or unplanned expenses related to post closure activities operations and maintenance at of the Puente Hills Landfill and Spadra Landfill.

6.3.2 Targeted Goal:

The targeted goal will be equal to one year of operations and maintenance expenses of the Puente Hills Landfill and Spadra Landfill.

6.3.3 Review Timeline:

The targeted goal will be reviewed and adjusted annually in conjunction with the preparation of the final budget for the Puente Hills Landfill and Spadra Landfill.

6.3.4 Funding:

In the event that the Post Closure Contingency Fund drops below the targeted goal, a plan will be developed to replenish the fund within ten years through additional funding in the Fee-in-Lieu Fund.

6.4 Puente Hills Landfill and Spadra Landfill Corrective Action Trust Accounts

6.4.1 Purpose:

CalRecycle requires operators of solid waste disposal facilities to demonstrate adequate financial assurances for costs of known or reasonably foreseeable corrective action.

6.4.2 Targeted Goal:

The targeted goal for these Trust Accounts is determined after consultation with a third party consultant to project the cost of any known or reasonably foreseeable corrective action.

6.4.3 Review Timeline:

The minimum targeted goal shall be reviewed every five years by the District and CalRecycle.

6.4.4 Funding:

If additional funding is required, a transfer from the Districts Joint Refuse System Operating Fund would be made to meet the required fund balances.

6.5 Puente Hills Landfill Site Development Fund

6.5.1 Purpose:

The monies in this Fund are restricted to the development, operation and maintenance of a park at Puente Hills Landfill by the County of Los Angeles.

6.5.2 Targeted Goal:

There is no targeted goal. Deposits into this Fund stopped when the Puente Hills Landfill ceased operations. Monies in this Fund will be transferred to the County of Los Angeles at their request until the Fund is fully depleted.

6.5.3 Review Timeline:

No review is necessary as there is no targeted goal.

6.5.4 Funding:

Except for interest on Fund investments, no additional monies will be transferred to this Fund.

6.6 Other Reserve Funds

From time to time, it may be necessary to establish other restricted reserve funds in accordance with law or other statutory requirements or with contractual agreements to which the District in its capacity as administrator of the Districts Solid Waste System is a party. The Treasurer will create such Reserve Funds as mandated and will establish appropriate targeted goals, reviews, and funding mechanisms.

7. Solid Waste Financial Reserve Policy Adoption

This Policy will be reviewed on an annual basis and any modifications must be approved by the Board. Prior to such review, the matter will be referred to the Personnel Committee (comprised of the Chairpersons of the Board of Directors of each active County Sanitation District of Los Angeles County) for its consideration.

Adopted this _____ day of _____.